
***RIVER ROCK CONDOMINIUM
OWNERS ASSOCIATION, INC.***

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013 and 2012

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OWNERS ASSOCIATION, INC.***

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013 and 2012

L.R. COMPTON II, LLC
CERTIFIED PUBLIC ACCOUNTANTS
3595 SOUTH TELLER STREET, SUITE 402
LAKEWOOD, COLORADO 80235

RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

DECEMBER 31, 2013 and 2012

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L.R. COMPTON II, LLC
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
River Rock Condominium Owners Association, Inc.
Denver, Colorado

We have audited the accompanying financial statements of River Rock Condominium Owners Association, Inc., which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenue, expenditures and changes in fund balances and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of River Rock Condominium Owners Association, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lakewood, Colorado
March 26, 2014

A handwritten signature in blue ink, consisting of a stylized 'J' followed by a 'V' and a checkmark-like flourish.

RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

BALANCE SHEETS

	DECEMBER 31,			
	2013			2012
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 6,628	\$ 31,166	\$ 37,794	\$ 61,305
Certificates of Deposit	-	75,920	75,920	75,654
Assessments Receivable, Net	7,143	-	7,143	16,234
Accrued Interest Receivable	-	66	66	153
Prepaid Items	324	-	324	-
Interfund Balances	<u>(47,184)</u>	<u>47,184</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	\$ <u>(33,089)</u>	\$ <u>154,336</u>	\$ <u>121,247</u>	\$ <u>153,346</u>
LIABILITIES and FUND BALANCES				
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 9,276	\$ -	\$ 9,276	\$ 13,189
Deferred Assessments	<u>9,720</u>	<u>-</u>	<u>9,720</u>	<u>6,720</u>
<i>Total Liabilities</i>	18,996	-	18,996	19,909
FUND BALANCES				
Operating Fund (Deficit)	(52,085)	-	(52,085)	(12,415)
Replacement Fund	<u>-</u>	<u>154,336</u>	<u>154,336</u>	<u>145,852</u>
<i>Total Fund Balances</i>	<u>(52,085)</u>	<u>154,336</u>	<u>102,251</u>	<u>133,437</u>
TOTAL LIABILITIES and FUND BALANCES	\$ <u>(33,089)</u>	\$ <u>154,336</u>	\$ <u>121,247</u>	\$ <u>153,346</u>

See Notes to Financial Statements

RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

STATEMENTS of REVENUE, EXPENDITURES and CHANGE in the FUND BALANCES

	YEARS ENDED DECEMBER 31,			
	2013			2012
	Operating Fund	Replacement Fund	Total	Total
REVENUE				
Assessments	\$ 332,424	\$ 70,776	\$ 403,200	\$ 393,600
Other Member Income	14,741	-	14,741	14,728
Interest	-	554	554	705
Total Revenue	347,165	71,330	418,495	409,033
EXPENDITURES				
Maintenance				
Grounds	62,905	-	62,905	65,092
Buildings	50,251	-	50,251	54,954
Pool/Hot Tub	6,126	-	6,126	6,679
Snow Removal	12,720	-	12,720	12,414
<i>Total Maintenance</i>	<u>132,002</u>	<u>-</u>	<u>132,002</u>	<u>139,139</u>
Operating				
Utilities	129,613	-	129,613	124,759
<i>Total Operating</i>	<u>129,613</u>	<u>-</u>	<u>129,613</u>	<u>124,759</u>
Replacement Projects	-	62,706	62,706	41,631
Administrative				
Bad Debts	9,222	-	9,222	1,802
Income Taxes	-	-	-	-
Insurance	84,660	-	84,660	80,835
Management Fees	22,500	-	22,500	22,200
Office and Communications	2,008	140	2,148	2,180
Professional Fees	6,830	-	6,830	4,618
<i>Total Administrative</i>	<u>125,220</u>	<u>140</u>	<u>125,360</u>	<u>153,266</u>
Total Expenditures	<u>386,835</u>	<u>62,846</u>	<u>449,681</u>	<u>417,164</u>
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES	(39,670)	8,484	(31,186)	(8,131)
Fund Balances (Deficit), Beginning of Year	<u>(12,415)</u>	<u>145,852</u>	<u>133,437</u>	<u>141,568</u>
FUND BALANCES (DEFICIT), End of Year	\$ <u>(52,085)</u>	\$ <u>154,336</u>	\$ <u>102,251</u>	\$ <u>133,437</u>

See Notes to Financial Statements

RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

STATEMENTS of CASH FLOWS

	YEARS ENDED DECEMBER 31,			
	2013		2012	
	Operating Fund	Replacement Fund	Total	Total
<i>CASH PROVIDED (USED) by OPERATING ACTIVITIES:</i>				
Excess (Deficit) of Revenue Over Expenditures	\$ (39,670)	\$ 8,484	\$ (31,186)	\$ (8,131)
<i>Adjustments to Reconcile Excess (Deficit) of Revenue over Expenditures to Net Cash Provided (Used) by Operating Activities</i>				
Assessments Receivable, Net	9,091	-	9,091	10,908
Accrued Interest Receivable	-	87	87	(69)
Prepaid Items	(324)	-	(324)	-
Accounts Payable and Accrued Liabilities	(3,913)	-	(3,913)	(7,306)
Deferred Assessments	<u>3,000</u>	<u>-</u>	<u>3,000</u>	<u>913</u>
<i>Total Cash Provided (Used) by Operating Activities</i>	(31,816)	8,571	(23,245)	(3,685)
<i>CASH PROVIDED (USED) by INVESTING ACTIVITIES:</i>				
Certificates of Deposit	-	(266)	(266)	(654)
Interfund Transfers	<u>33,369</u>	<u>(33,369)</u>	<u>-</u>	<u>-</u>
<i>Total Cash Provided (Used) by Investing Activities</i>	<u>33,369</u>	<u>(33,635)</u>	<u>(266)</u>	<u>(654)</u>
<i>NET INCREASE (DECREASE) in CASH</i>	1,553	(25,064)	(23,511)	(4,339)
Cash, Beginning of Year	<u>5,075</u>	<u>56,230</u>	<u>61,305</u>	<u>65,644</u>
<i>CASH, End of Year</i>	<u>\$ 6,628</u>	<u>\$ 31,166</u>	<u>\$ 37,794</u>	<u>\$ 61,305</u>
<i>Supplemental Disclosures</i>				
Income Taxes Paid	\$ -	\$ -	\$ -	\$ -
Interest Paid	\$ -	\$ -	\$ -	\$ -

See Notes to Financial Statements

RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES to FINANCIAL STATEMENTS DECEMBER 31, 2013 and 2012

HISTORY and SIGNIFICANT ACCOUNTING POLICIES

History

River Rock Condominium Owners Association, Inc. (the Association) was organized and incorporated under the provisions of the Colorado Nonprofit Corporation Act on June 1, 1997 to manage the operations of the River Rock Condominiums. The Association is a membership corporation without certificates or shares of stock, and consists of 160 residential units in 10 buildings, owners of which are the members. Although more than one person or entity may own a unit, only one vote per unit is allowed at Association meetings.

The Association is charged with the responsibility for the care, maintenance, preservation and architectural control of the unit exteriors and common areas as well as promoting the health, safety and welfare of the residents within the jurisdiction of the Association.

The powers and privileges of the Association are enumerated in its By-Laws and the Declaration of Covenants, Conditions and Restrictions (CC&R's) that provide for an elected Board of Directors to administer the responsibilities above as well as perform the fiscal duties required by a membership corporation. The Board may adopt a set of rules and regulations to assist in the operation of the project. It may further hire and delegate day to day responsibility for the operations to a professional association management company.

Significant Accounting Policies

Method of Accounting

River Rock Condominium Owners Association, Inc.'s financial statements are prepared on the accrual basis of accounting utilizing fund accounting to report on its activities as prescribed in its governing documents.

Certificates of Deposit

As of December 31, 2013, the portfolio of the replacement fund consists of three certificates of deposit. Maturity dates range from May 2014 to August 2014 with interest rates ranging from 0.400% to 1.245%. At December 31, 2012, there were three certificates of deposit. Maturity dates ranged from January 2013 to May 2013 with interest rates ranging from 0.300% to 1.311%.

RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES to FINANCIAL STATEMENTS

DECEMBER 31, 2013 and 2012

(Continued)

HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable, Net

The accounts receivable from homeowners arise from monthly dues/assessments; late charges; fines imposed for infractions of the CC&R's, By-Laws or Rules and Regulations, and legal fees incurred in the collection of overdue accounts. These balances from ordinary Association activities are second in seniority only to any first mortgage on the property, and in management's opinion, are collectible in full. However, due to the expense and time that may be incurred in the collection of these receivables, the Board has elected to create an allowance for uncollectible accounts receivable of \$19,000 and \$12,600 in 2013 and 2012 respectively.

Prepaid Items

The River Rock Condominium Owners Association, Inc. may acquire service contracts such as insurance on an annual basis or pay certain expenses in advance. The future applicability of these purchases is recorded as prepaid items and amortized in the appropriate accounting period.

Interfund Balances

At various times, the Operating Fund and the Replacement Fund may not have completed cash transfers between funds. Cash to be transferred from one fund to the other, if any, is recorded as interfund balances from one fund to the other.

Deferred Assessments

The Association may receive assessments levied for future periods in advance of the period due. Such payments are recognized in the accounting period when earned.

Fund Balances

River Rock Condominium Owners Association, Inc. records its fiscal activities in two funds, defined as:

Operating Fund

Normal and usual operating income and expenses, as directed by the Board and set by the annual budget are recorded in this fund.

Replacement Fund

An adequate replacement reserve shall be accumulated from the annual assessments to provide for the major maintenance and replacement of common areas of the Association. The common areas consist primarily of the foundations, the facades and roofs of the buildings; the landscaping and irrigation; the pool; the clubhouse, and the streets and sidewalks of the Association. The budgeted assessments and anticipated expenditures from this fund are based on a 1999 study by an independent engineering firm.

RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES to FINANCIAL STATEMENTS

DECEMBER 31, 2013 and 2012

(Continued)

HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue

Assessments, as set by the annual budget to be collected from homeowners, represent the major source of revenue for the Association. Additionally, assessments paid in arrears incur a late charge and are recorded along with all parking charges as other member income. Also, fines imposed for infractions under the rules and regulations are recorded as other member income.

Income Taxes

Although River Rock Condominium Owners Association, Inc. is a nonprofit corporation under Colorado statutes, it is responsible for federal and state income taxes on any earnings from interest, dividends or other income not derived from its membership. In 2013 and 2012, the Association elected to file standard corporate tax returns (Forms 1120 and 112) with no income taxes due and a tax loss carryforward of \$59,543.

Any excess or shortfall of revenue over expenses in member operations of the Association may be carried forward to offset future excesses or shortfalls for income tax purposes with no time limit. At December 31, 2013, the Association has a loss carryforward of \$121,751 to offset future excess member revenue.

Concentration of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of temporary cash balances. River Rock Condominium Owners Association, Inc. maintains its cash balances in both national banks and with investment firms.

The Federal Deposit Insurance Corporation provides up to \$250,000 of insurance at December 31, 2013 and 2012, for interest earning balances in national banks. Demand deposits are insured by the FDIC in the amount of \$250,000 at December 31, 2013 and unlimited amounts at December 31, 2012. Investment firms provide insurance for the balances in their accounts. Based on the FDIC limits at year-end December 31, 2013 and 2012, the Association has \$-0- in uninsured deposits.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying value of cash, short-term payables and long-term debt approximate their fair value at December 31, 2013 and 2012. The fair value of debt is estimated based upon current interest rates for obligations with similar terms and maturities.

RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES to FINANCIAL STATEMENTS

DECEMBER 31, 2013 and 2012

(Continued)

HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain accounts presented in the December 31, 2012 financial statements have been reclassified to conform to the presentation at December 31, 2013.

NOTE 2: Replacement Fund

At December 31, 2013 and 2012, the Association had a balance of \$154,336 and \$ 145,852 in its Replacement Fund. The general restriction on this fund is for major maintenance of and/or replacement of the Association's common areas in accordance with the *Reserve Planning Notebook with Engineering Financial Reserve Analysis*, August 1999, prepared by an independent engineering firm. This study projects the probable major maintenance and replacement capital needs of the Association over the succeeding twenty years, based on an investigation of the property in July 1999. The study includes 4.5% estimated earnings and 6% inflation on the forecasted needs of the Replacement Fund.

The Board is charged with the responsibility of accumulating monies in the Replacement Fund based on the estimates discussed above. Actual expenditures may vary from the schedule of estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the Replacement Fund may not be adequate to meet all future needs for major replacements. If additional Replacement Fund expenditures are required, the Association has the right, subject to membership approval, to increase the regular assessments, pass special assessments or delay major repairs and replacements until funds are available.

NOTE 3: Replacement Projects

The Board of the Association plans the Replacement Fund expenditures each year depending on the "Reserve Study", and on owners' reports of physical conditions. During the years covered herein, the following projects were undertaken and completed by the Replacement Fund:

<u>Project Description</u>	<u>Years Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Insulation	\$ -	\$ 27,631
Major Building Repairs	4,350	-
Pool	14,000	-
Stairs	-	14,000
Water Damage Remediation	<u>44,356</u>	<u>-</u>
Total Replacement Projects	<u>\$ 62,706</u>	<u>\$ 41,631</u>

***RIVER ROCK CONDOMINIUM
OWNERS ASSOCIATION, INC.***

NOTES to FINANCIAL STATEMENTS

DECEMBER 31, 2013 and 2012

(Continued)

NOTE 4: Contingencies

The Association may be a party to various legal actions normally associated with homeowner's associations, such as the collection of delinquent accounts and owner compliance with the covenants, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

NOTE 5: Subsequent Events

For the year ended December 31, 2013, the Association has evaluated subsequent events for potential recognition and disclosure through March 26, 2014, the date of the financial statement issuance.

***RIVER ROCK CONDOMINIUM
OWNERS ASSOCIATION, INC.***

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013

L. R. COMPTON II, LLC
Certified Public Accountants

***Independent Auditor's Report on
Supplementary Information***

Members of the Board of Directors
River Rock Condominium Owners Association, Inc.
Denver, Colorado

We have audited the financial statements of River Rock Condominium Owners Association, Inc. as of and for for the year ended December 31, 2013, and our report thereon dated March 26, 2014, which expressed an unmodified opinion on those financial statements, appears on page 1 and 2. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The *Schedule of Revenue and Expenditures versus Budget, Operating Fund* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that column marked "Not Audited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *Schedule of Future Major Repairs and Replacements*, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

March 26, 2014



**RIVER ROCK CONDOMINIUM
OWNERS ASSOCIATION, INC.**

SCHEDULE of REVENUE and EXPENDITURES
VERSUS BUDGET, OPERATING FUND
YEAR ENDED DECEMBER 31, 2013

Certain accounts from the 2013 internally prepared budget have been combined and appear in the following schedule in summary form to conform to the financial statement presentation herein. Amounts in () represent collections in excess of the 2013 budget or expenditures in excess of the 2013 budgeted amounts forecast by the Board when adopted in 2012.

	<u>Actual</u>	<u>Budget (Not Audited)</u>	<u>(Over)/Under Budget</u>
REVENUE			
Assessments	\$ 403,200	\$ 403,200	\$ -
Other Member Income	<u>14,741</u>	<u>15,096</u>	<u>355</u>
Total Revenue	417,941	418,296	355
EXPENDITURES			
Maintenance			
Grounds	62,905	60,720	(2,185)
Buildings	50,251	42,400	(7,851)
Pool/Hot Tub	6,126	7,000	874
Snow Removal	12,720	13,000	280
Operating			
Transfer to			
Replacement Fund	70,776	70,776	-
Utilities	129,613	119,000	(10,613)
Administrative			
Bad Debts	9,222	1,000	(8,222)
Income Taxes	-	500	500
Insurance	84,660	71,000	(13,660)
Management Fees	22,500	22,500	-
Office and Communications	2,008	3,100	1,092
Professional Fees	<u>6,830</u>	<u>7,300</u>	<u>470</u>
Total Expenditures	<u>457,611</u>	<u>418,296</u>	<u>(39,315)</u>
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES	\$ <u>(39,670)</u>	\$ <u>-</u>	\$ <u>(39,670)</u>

**RIVER ROCK CONDOMINIUM
OWNERS ASSOCIATION, INC.**

SCHEDULE of FUTURE MAJOR
REPAIRS and REPLACEMENT
DECEMBER 31, 2013

NOT AUDITED

As of August 1999, an independent property consulting firm completed and delivered the *Building Evaluation and Reserve Fund Study* of River Rock Condominium Owners Association, Inc. That analysis is summarized below. The analysis includes the Replacement Fund balances and contribution levels recommended for the next 20 years as well as probable expenditures anticipated to maintain the property. The anticipated expenditures are projected as a twenty year phased project. The study projects costs utilizing an estimated inflation rate of 6.0 percent and offsets future costs by a projected earnings rate of 4.5 percent on invested funds. Updates of the study were recommended to allow for substantial changes in replacement costs and for natural disasters or unknown conditions requiring significant expenditures.

Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the Replacement Fund may not be adequate to meet all future needs for major repairs and replacements. Should the funds required for major maintenance or replacement projects in the future be inadequate, the Board of Directors has the right to levy, with member approval, a special assessment, increase the annual assessment or delay the project until the funds are available. The study has not been adjusted for the construction defects and repairs discussed in Note 3 to the financial statements.

This information is not audited and the auditors express no opinion on it.

Components	1999 Estimated Remaining Useful Life (Years)	1999 Estimated Replacement Cost at Date of Next Replacement
Asphalt and Concrete	1 to 10	\$ 127,623
Building	2 to 20	127,554
Grounds	1 to 17	202,457
Pool	1 to 9	45,471
Roofs	7 to 20	<u>274,820</u>
Total Estimated Major Maintenance and Replacement Reserve Expenditures at Date of Next Replacement per Reserve Study, August 1999		<u>\$ 777,925</u>